

Champo Carpets

July 27, 2021

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|------------------------------|--|--|--|
| Short Term Bank Facilities | 30.00 | CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*) | Rating moved to ISSUER NOT COOPERATING category |
| Total Bank Facilities | 30.00 (Rs. Thirty Crore Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information & No default Statement (NDS) from Champo Carpets (CC) to monitor the rating vide e-mail communications/letters dated and July 19, 2021, July 17, 2021, July 16, 2021 and June 03, 2021 among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Champo Carpets bank facilities will now be denoted as **CARE A4; ISSUER NOT COOPERATING***

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

In view of non-availability of information along with lack of management cooperation and non-availability of NDS, CARE had placed the ratings of Champo Carpets under issuer not cooperating category. Thus, the rating revision is based on best available information.

Detailed description of the key rating drivers

At the time of last rating on March 22, 2021 the following were the rating weaknesses and strengths:

Key Rating Weaknesses

Modest scale of operations

Champo Carpets scale of operations remained modest as marked by total operating income and gross cash accruals of Rs.67.01 crore and Rs.5.73crore respectively, during FY20 (refers to the period April 1 to March 31) as against RS. 65.07 crores and Rs. 6.97 crores in FY19. The increase in sales is on account of addition of new product line of home décor products in product portfolio. The modest scale limits the firm's financial flexibility in times of stress and deprives it of scale benefits.

Elongated Operating cycle

The operations of the firm are working capital intensive in nature as marked by elongated Gross Current Asset days of 292 days in FY20 as compared to 230 days in FY19. The operating cycle stood at 200 days for FY20. The operating cycle deteriorated in FY20 on account of increased collection and inventory holding days. The firm is required to maintain adequate inventory in the form of raw material and finished goods for smooth execution of its production process and to meet the immediate demand of its customers since it takes average time of around 2-3 months for manufacturing a handmade carpet also firm is increasing number of products in their product portfolio and it is increasing firm's inventory holding period as well. Entailing, all results in average inventory holding period of around 179 days in FY20. Being in highly competitive nature of industry and dealing with foreign players, the firm has low bargaining power wherein it allows credit around 2-3 months resulting into average collection period of 73 days in FY20. However, the

firm receives credit period of around two months from its suppliers resulting in average creditor's period of 52 days in FY20.

Constitution of the entity being partnership firm

CC's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partner. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders

Foreign exchange fluctuation risk

CC exports its product in overseas market such as USA, Spain, Belgium, Turkey, Brazil, Romania, London, UK, etc. and export contribution to total sales stood around 100 percent. The business operations of CC involve only imports resulting in sales realization and cash inflow in foreign currency. Furthermore, CC does not import as entire procurement is done from domestic players. Being initial cost of procurement in local currency, sales realization in foreign currency and absence of any hedging strategy hence exposing CC to foreign currency fluctuation risk.

Fragmented and unorganized nature of carpet industry and increasing competition from China

The Indian carpet industry is characterized by numerous small players and is concentrated in Northern part of India which contributes a significant portion of India's total carpet production. Furthermore, due to low entry barriers and less capital intensive makes the hand knotted/tufted carpet industry highly lucrative and thus competitive. CC however faces stiff competition from cheaper carpet imports from China in the same product segment.

Liquidity position: - Stretched

The liquidity position of the company remained stretched as marked by fully utilized working capital limits for the past 12 months. Further, the firm has low cash & bank balances of Rs.0.79 crore. The current ratio also stood low at 1.18x as on March 31, 2020. However, the liquidity is supported by sufficient cushion in accruals vis-à-vis repayment obligations, GCA of Rs. 5.73 crore against repayment of Rs.0.48 crore. Updated information regarding the liquidity of the company is not available.

Key Rating Strengths

Experienced partners coupled with long track record of operations

Champo carpets is a family run business, Shri Sanjay Mehrotra, Smt. Deepali Mehrotra, Shri Mehul Mehrotra and Shri Rohil Mehrotra are the partners of the firm and they collectively look after the overall operations of the firm. Shri Sanjay Mehrotra is graduate and has accumulated experience of more than four decades in carpets industry through his association with the firm. Smt. Deepali Mehrotra is also graduate and has experience of more than two decades in carpets industry through her association with the firm. He is ably supported by Shri Mehul Mehrotra and Shri Rohil Mehrotra who are graduates and hold more than half decade of experience in carpets industry through their association with the firm. Further, long presence in industry has ensured in establishing a healthy relationship with both customers and suppliers.

Location advantage with diversified customer base

Bhadohi is well established manufacturing hub for carpet handloom industry. The firm benefits from the location advantage in terms of easy accessibility to carpet weavers. Additionally, various raw materials required in manufacturing of carpets are readily available owing to established supplier base in the same location. Moreover, the firm has diversified customer base which, in turn, improves the bargaining capacity of the firm and enhances the image of the firm in the market and lends supports to the quality of its products/services.

Moderate profitability margins, capital structure and debt coverage indicators

The profitability margins of the firm remained moderate for the past three financial years i.e. (FY18-FY20) since the firm is mainly manufacturing handmade carpets which fetch comparatively higher margins. The PBILDT margin of the firm declined and stood at 13.58% in FY20 as against 17.39% in FY19 as the firm

opened new enquiry office in New York, USA for expansion in which the firm incurred expenditure of Rs. 1.60 crore the office will become fully operational in FY21. Similarly, PAT margin of the firm stood at 3.65% during FY20 as against 6.38x in FY19. The decline in PAT margins was in line with the PBILDT margins. The firm has debt mainly in the form of vehicle loans of Rs. 1.41 crores, working capital limits of Rs. 31.96 crores and unsecured loans of Rs. 1.54 crores in FY20. The capital structure of the firm stood comfortable as on the past three balance sheet dates as marked by debt to equity and overall gearing which stood at 0.04x and 0.97x in FY20 as against 0.05x and 1.04x in FY19. The improvement was on account of comfortable net worth coupled with accretion of profit to reserves. Further, owing to moderate profitability margins, the debt service coverage indicators of the firm as marked by interest coverage and total debt to GCA stood moderate at 4.45x and 6.09x during FY20 as against 5.40x and 4.60x in FY19.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Policy on Definition of Default](#)

[Criteria on Short Term Instruments](#)

[Financial Ratios- Non Financial Sector](#)

[Rating Methodology-Manufacturing companies](#)

[Liquidity Analysis of Non-financial Sector Entities](#)

About the Company

Bhadohi, Uttar Pradesh based Champo Carpets (CC) was established in April, 1974 as a partnership firm and is currently managed by Shri Sanjay Mehrotra, Smt. Deepali Mehrotra, Shri Mehul Mehrotra and Shri Rohil Mehrotra, having profits/losses sharing ratio of 25% each. The firm is engaged in the manufacturing and export of handmade carpets & rugs. It has its own in-house handlooms for manufacturing the same and has weaving centers located in Harirampur and Aurai Road Bhadohi. Besides this, the firm has 3 showrooms located in Noida (India), New York (USA) and Las Vegas (USA).

Covenants of rated instrument/facility: Details explanation of covenants of the rated instruments/facilities is given in Annexure-3

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|------------------------------|----------|----------|
| Total operating income | 65.07 | 67.01 |
| PBILDT | 11.31 | 9.10 |
| PAT | 4.15 | 2.44 |
| Overall gearing (times) | 1.04 | 0.97 |
| Interest coverage (times) | 5.40 | 4.45 |

A: Audited

Status of non-cooperation with previous CRA: Champo Carpets has not cooperated with BRICKWORK which has classified it as issuer not cooperative vide Press release dated Sept 22, 2020. The reason provided by BRICKWORK is of non-submission of NDS by the firm.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Annexure 3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - ST-Packing Credit in Indian rupee | - | - | - | 20.00 | CARE A4; ISSUER NOT COOPERATING* |
| Fund-based - ST-Foreign Demand Bills Payable | - | - | - | 10.00 | CARE A4; ISSUER NOT COOPERATING* |

**Issuer not cooperating; Based on best available information*

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|----------------------------------|---|---|--|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Fund-based - ST-Packing Credit in Indian rupee | ST | 20.00 | CARE A4; ISSUER NOT COOPERATING* | - | 1)CARE A4 (22-Mar-21) | 1)CARE A4 (02-Mar-20) 2)CARE A4 (09-May-19) | - |
| 2. | Fund-based - ST-Foreign Demand Bills Payable | ST | 10.00 | CARE A4; ISSUER NOT COOPERATING* | - | 1)CARE A4 (22-Mar-21) | 1)CARE A4 (02-Mar-20) 2)CARE A4 (09-May-19) | - |

**Issuer not cooperating; Based on best available information*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company/firm

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--|------------------|
| 1. | Fund-based - ST-Foreign Demand Bills Payable | Simple |
| 2. | Fund-based - ST-Packing Credit in Indian rupee | Simple |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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